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The Director of Central Intelligence
Washington, D.C. 20505

18 July 1984

National Intelligence Council

NOTE FOR: Bob Gates

FROM: Maurice C. Ernst
NIO/Econ

SUBJECT: Soviet Defense Spending

Bob;

Some thoughts on the CIA/DIA briefing on Soviet defense spending for the DCI and SecDef.

1. I hope the briefing will not focus on methodological differences between CIA and DIA estimates of Soviet defense spending. To do this would be confusing and unrewarding because, with regard to the dollar cost estimates, the basic methodologies are similar.

2. DIA's recent estimate of 1983 Soviet military procurement does raise an important issue--that is, whether and how to prepare early, preliminary estimates and how to treat them. DoD no doubt has a legitimate need early in a calendar year for estimates of Soviet military procurement for the previous year. Such preliminary estimates can only be based on very partial information and are generally changed several times before CIA has been willing to put its estimate on the record. Instead of criticizing what DIA has done, however, CIA should offer to assist DIA in producing early estimates. This means the two groups should get together to work out to the extent they can a common position on the information available at various times, the way it should be incorporated in a cost estimate, and what can and cannot be concluded from such a preliminary estimate.

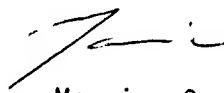
3. The most important substantive issue to discuss with the DCI and SecDef is the uncertainty about medium-term prospects for Soviet military procurement; this uncertainty appears to be greater than usual and growing. Evidence is accumulating that medium-term projections of Soviet force levels, both those coordinated through NIEs and others, would require a growth of military expenditures and of military procurement in particular that many Soviet analysts believe to be

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greatly in excess of what the Soviet economy can probably support. Something will have to give. I don't believe we can hazard an answer at this point, but simply point out to the Director and Weinberger that at a minimum a severe conflict is shaping up in the USSR over the allocation of key resources between defense and other uses, and that the outcome of this conflict remains in doubt. In any event, serious work will be needed both to cost out the projected force levels and to estimate the demands the required growth of military production would make on specific critical sectors of the civilian economy.

4. With regard to measuring the Soviet defense burden (that is, in rubles), CIA should:

- o Indicate how difficult the problem is and why.
- o Decide what the CIA methodology does and does not capture--e.g., it does not represent actual current ruble costs and there is a great deal of ambiguity as to what part of increased current ruble costs is due to increased weapons complexity and how much to inflation.
- o Encourage DIA (and anyone else) to explore alternative ways of estimating ruble costs.



Maurice C. Ernst